

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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STR-04 CEA-01 PA-02 PRS-01 AGRE-00 CU-04 HEW-06 OES-06
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FM AMEMBASSY VALLETTA
TO SECSTATE WASHDC 7233
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 VALLETTA 0200

E.O. 11652: N/A
TAGS: ECRP, EFIN, MT
SUBJECT: MALTA'S BUDGET FOR 1977/78

REF: CERP 200, VALLETTA 005, 76 VALLETTA 0347,

1. SUMMARY: ON JANUARY 31, MINISTER OF FINEFCE JOSEPH ABELA PRESENTED THE 1977/ GOM BUDGET, THE SIXTH CONSECUTIVE BUDGET OF THE MALTA LAZMR GOVERNMENT OF PRIME MINISTER MINTOFF, AND THE FIRST SINCE ITS RE-ELECTION IN SEPTEMBER 1976. THE NEW BUDGET PROJECTS RECORD EXPENDITURES OF LM103 M, UP LM3.2 M OVER THE REVISED EXPENDITURES FOR FY 1976/77. REVENUE ESTIMATES IN THE NEW BUDGET ARE DOWN BY LM7.3 M, TO LM94.6 M. THE ESTIMATED LM8.4 M DEFICIT WILL BE MADE UP BY DRAWINGS FROM THE CONSOLIDATED FUND. BY SO DOING, THE CURRENT CONSOLIDATED FUND BALANCE OF LM8.5 M WILL BE REDUCED TO ONLY LM100,000 AT THE END OF THE FORTHCOMING FINANCIAL YEAR ON MARCH 31, 1978. THE BUDGET DOES NOT INVOLVE ANY SIGNIFICANT "BELT TIGHTENING" FEATURES, ALTHOUGH THERE HAD BEEN FEARED IN MANY MALTESE
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CIRCLES. ON THE CONTRARY, SOME TAXES WERE DECREASED, WHILE WAGES AND SOCIAL BENEFITS WILL BE INCREASED DURING THE COMING YEAR. THE MAJOR INITIAL CRITICISM OF THE NEW BUDGET HAS BEEN AIMED AT THE GOM'S DECISION TO REVISE THE LONG-OUTDATED FOOD RATION/SUBSIDY SYSTEM (WHICH GOES BACK TO WORLD WAR II), AND THE LACK OF INCENTIVES TO PROMOTE NEW INVESTMENT.

NOTE: ONE MALTESE POUND EQUALS APPROXIMATELY US DOLS 2.35. UNLESS OTHERWISE INDICATED, ALL MOUNTS IN THIS REPORT ARE IN MILLIONS OF MALTESE POUNDS, ROUNDED TO THE NEAREST TENTH, AND REPRESENTED BY "M". END SUMMARY

2. EXPENDITURES: RECURRENT EXPENDITURES IN THE 1977/78 BUDGET ARE UP SOME LM5.5 M, TO LM67.9 M. THE MAJOR EXPENDITURES CONTINUE TO BE FOR LABOR, WELFARE AND CULTURE, EDUCATION, HEALTH AND SUBSIDIES. TOGETHER THESE ACCOUNT FOR 50 PERCENT OF ALL RECURRENT EXPENDITURES IN THE 1977/78 BUDGET. COMPARED TO THE PREVIOUS BUDGET, THE ONLY SIGNIFICANT CHANGES INVOLVE THE TWO CATEGORIES OF LABOR, WELFARE AND CULTURE; AND SUBSIDIES. THE FORMER WILL INCREASE BY NEARLY 2 MILLION MALTESE POUNDS, THE RESULT OF IMPROVEMENTS IN VARIOUS SOCIAL ASSISTANCE PROGRAMS, AND A LM1.50 PER WEEK FLAT RATE RISE IN WAGES, WHICH WILL BRING THE WEEKLY MINIMUM WAGE LEVEL TO LM-4.75. SUBSIDIES, ON THE OTHER HAND, ARE EXPECTED TO DECREASE BY LM1.1 M BECAUSE OF A REVISION IN THE METHOD BY WHICH THEY ARE GIVEN. RATHER THAN SUBSIDIZING THE COST OF ANIMAL FEED, FLOUR AND PASTA AT THE PRODUCER LEVEL, AS IN THE PAST, THE GOM WILL NOW PAY SUCH SUBSIDIES BY CHECK DIRECTLY TO THE CONSUMER (TO THE CHAGRI COF THE BAKERS AND FARMERS, WHOSE EARNINGS, BECAUSE OF PRICE CEILINGS, WILL BE ADVERSELY AFFECTED).

SPECIAL EXPENDITURES ARE EXPECTED TO RISE LM0.6 M, TO LM2.8 M, PRIMARILY BECAUSE OF THE COST OF MAINTAINING THE VARIOUS GOVERNMENT WORK CORPS, WHICH NOW EMPLOY SOME 7,000 PEOPLE. UNDER THE NEW BUDGET, THE COST OF THESE PROGRAMS WILL BE UNCLASSIFIED

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LM2.3 M, UP LM0.5 M ABOVE THE 1976/77 FIGURE. (ADDITIONAL EXPENDITURES, SUBMERGED IN THE VOTES OF VARIOUS MINISTRIES, RAISES THE ACTUAL COST OF THESE PROGRAMS TO AN ESTIMATED LM6.7 M.) CAPITAL EXPENDITURES OF LM32.3 M ACTUALLY ARE DOWN LM2.8 M FROM THE 1976/77 TOTAL OF LM35.1 M. IN LARGE PART THIS IS DUE TO A LM2.5 M DROP IN PROJECTED HOUSING EXPENDITURES. OTHER AREAS WITH REDUCED EXPENDITURE ESTIMATES ARE AIRPORT DEVELOPMENT (DOWN LM1.9 M) AND PORT DEVELOPMENT (DOWN NEARLY LM1.0 M). THE ONE SIGNIFICANT INCREASE IS IN PROJECTED EXPENDITURES ON SHIPREPAIR AND SHIPBUILDING (UP NEARLY LM3.0 M, TO LM8.0 M). HALF OF THE TOTAL GOM EXPENDITURE IN THIS AREA IS EXPECTED TO BE REIMBURSED BY THE MALTA SHIPBUILDING COMPANY, A NEWLY-FORMED APRASTATAL COMPANY IN WHICH THE LIBYAN ARAB REPUBLIC HAS A 25 PERCENT INTEREST. THIS EXPECTED LM4.0 M REIMBURSEMENT IS INCLUDED AS REVENUE UNDER "SALES". (UNDER SALES REVENUE ONE CAN ALSO FIND ANOTHER LM4.0 M WHICH IS INDIRECTLY DERIVED FROM LIBYA. THIS SUM REPRESENTS PROFITS GENERATED FROM THE RESALE OF PETROLEUM PURCHASED BY THE GOM FROM LIBYA AT CONCESSIONARY PRICES.) THE LARGEST CAPITAL EXPENDITURE,

HOWEVER, CONTINUE TO BE FOR THE DEVELOPMENT OF INDUSTRY.
AT LM10.4 M, IT IS ONLY SLIGHTLY (LM0.3 M) ABOVE THE 1976/77
PERIOD. IT IS ALMOST EQUALLY DIVIDED BETWEEN ANTICIPATED
DIRECT INVESTMENT AND THE ESTIMATED CONSTRUCTION COST OF NEW
FACTORIES AND FACTORY SITES.

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3. REVENUES: THE LM7.3 M PROJECTED DECREASED IN GOM REVENUE
IN THE 1977/78 BUDGET IS ALMOST ENTIRELY DUE TO AN ESTIMATED
LM6.1 M DECREASE IN CENTRAL BANK OF MALTA EARNINGS (I.E. INCOME
FROM OVERSEAS INVESTMENTS OF FOREIGN EXCHANGE RESERVES).
ESTIMATED REVENUE FROM FOREIGN LOANS IS ALSO DOWN BY LM2.2 M,
TO ONLY LM1.9 M. (LOANS TO BE UTILIZED ARE FROM FRANCE, LM0.3 M;
WEST GERMANY, LM1.1 M; AND THE PEOPLES REPUBLIC OF CHINA, LM0.5 M).
DESPITE THE INTRODUCTION OF CERTAIN NEW TAX BENEFITS, ESTIMATED
TAX REVENUE IS ACTUALLY UP BY LM1.3 M. THE MAIN REVENUE SOURCES
IN 1977/78 WILL CONTINUE TO BE CUSTOMS, LICENCES AND OTHER
TAXES (LM24.1 M), INCOME TAX AND SUCCESSION DUTIES (LM16.8 M),
CENTRAL BANK EARNINGS (LM17.2 M) AND RENT FROM DEFENSE FACILITIES
(LM13.0 M).

4. LOCAL REACTION TO THE BUDGET: RECENT GOM HIKES IN
THE COST OF DIESEL, KEROSENE, BOTTLED GAS AND TELEPHONE

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RATES, COMBINED WITH A GENERAL UNEASINESS REGARDING THE UNCERTAIN FUTURE OF THE MALTESE ECONOMY, HAD LET THE PUBLIC TO ANTICIPATE THAT THE 1977/78 BUDGET WOULD CONTAIN ADDITIONAL PRICE RISES AND HIGHER TAXES. THERE WAS A SIGH OF RELIEF WHEN THIS DID NOT OCCUR. HOWEVER, RELIEF WAS QUICKLY REPLACED BY CRITICISM FROM CERTAIN SECTORS OF THE POPULATION. A MAJOR COMPLAINT IS THAT THE BUDGET CONTAINS NO PROVISIONS WHICH MIGHT PROMOTE INVESTMENT, EITHER FOREIGN OR LOCAL. BECAUSE OF THE GROWING PUBLIC AWARENESS THAT THE FINAL REVENUE PAYMENT FROM THE U.K. MILITARY FACILITIES AGREEMENT IS FAST APPROACHING, AND THE REALIZATION THAT THE ESTIMATED LM30 M ANNUAL REVENUE DERIVED FROM THIS SOURCE MUST SOMEHOW BE REPLACED, INVESTMENT PROMOTION HAS BECOME A PRIORITY ISSUE IN MALTA. THE MOST SERIOUS COMPLAINTS ABOUT THE BUDGET, HOWEVER, HAVE ARISEN OVER THE RADICAL CHANGE IN THE GOVERNMENT'S COMMODITY SUBSIDY PROGRAM. IN PROTEST AGAINST THE NEW SYSTEM OF DIRECT SUBSIDY PAYMENTS TO CONSUMERS, THE BAKERS STRUCK TEMPORARILY ON FEBRUARY 6. POULTRY AND ANIMAL PRODUCERS ARE THREATENING THAT THE REMOVAL OF FEED SUBSIDIES WILL FORCE THEM OUT OF BUSINESS, AND, REPORTEDLY, THE MINISTER OF AGRICULTURE WAS BESEIGED IN HIS OFFICE BY DISGRUNTLED MILD PRODUCERS AND REQUIRED POLICE ASSISTANCE.

5. COMMENT: MALTA HAS LONG ENJOYED A RELATIVELY HIGH STANDARD OF LIVING THROUGH LITTLE EFFORT ON THE PART OF THE INDIVIDUAL MALTESE. A MAJOR DIFFICULTY FACING PRIME MINISTER MINTOFF IN ATTEMPTING TO ELIMINATE PATRONISHING ANACHRONISMS SUCH AS THE WW II INSPIRED SUBSIDY PROGRAMS, IS THE INEVITABLE DISLIKE OF CHANGE IN A SYSTEM WHICH HAS BECOME ENTRENCHED. HOWEVER, IT IS EXPECTED THAT THE VARIOUS COMPLAINTS ABOUT THE SUBSIDY CHANGES WILL BE WORKED OUT OVER THE NEXT FEW MONTHS IN A MANNER THAT WILL BE AT LEAST A VICTORY IN PRINCIPLE FOR MINTOFF. THE MAJOR CRITICISM OF HIS BUDGET -- THAT IT IS UNIMAGINATIVE AND UNINSPIRING -- IN THE FACE OF THE RAPIDLY APPROACHING

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1979 "DATE WITH DESTINY" WHICH MINTOFF HAS CREATED FOR THE MALTESE, WILL BE MORE DIFFICULT FOR THE GOM TO REFUTE. GOM EFFORTS ARE UNDERWAY TO ATTRACT BADLY-NEEDED INDUSTRIAL INVESTMENT TO THE ISLAND BEFORE THAT DATE ARRIVES, BUT THIS BUDGET DOES LITTLE TO ENCOURAGE THAT ESSENTIAL EFFORT.

END COMMENT.

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Message Attributes

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Disposition Approved on Date:
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